

# Börje Ekholm at Ericsson AGM: “Stabilize and simplify”

- President and CEO summarizes Ericsson’s focused business strategy
- Intense work in 2017 to stabilize the business and simplify the organization
- Ericsson well-positioned as 5G enters commercial phase

Speaking at the Ericsson (NASDAQ: ERIC) Annual General Meeting (AGM), President and CEO Börje Ekholm summarized the company's focused business strategy, its financial performance and the measures taken to improve company performance during 2017.

## **A focused business strategy**

Ekholm explained that the starting point for Ericsson’s strategy is the focus on its customers, the service providers, and their three main challenges – decreasing the cost per gigabit, becoming fully digital, and finding new revenues. The strategy builds on three cornerstones; technology leadership, product-led solutions, and global scale and skill.

Ekholm said: “We are confident that the strategic choices we have made will create a strong and successful Ericsson over time. But as you know, we are not there yet.”

## **Financial performance**

For the full year 2017, Ericsson’s reported net sales decreased by -10 %, to SEK 201 b. The reported operating income was SEK -38.1 (6.3) billion, largely explained by restructuring costs, impairment, provisions and adjustments in customer projects, with a combined negative effect of approximately SEK 40 billion. Adjusted operating income, which measures the underlying business, was SEK 1.7 billion.

On the positive side, the development in Networks was stabilized during the year, with an improved gross margin towards the end of the year, and the company’s financial position remains strong.

Ekholm said: “2017 was a tough year with a continued declining market. We are far from satisfied with our performance and have taken a number of actions to turn around the development and improve profitability, to build a strong Ericsson for the long term.”

## **Stabilize and simplify**

Ekholm explained that Ericsson, in a first phase, has worked to stabilize the business and simplify the organization. This work has included:

- 42 non-strategic contracts identified in Managed Services, of which 23 has been either exited or renegotiated during the year.
- In Digital Services, product roadmaps and project delivery have been stabilized, and 45 non-strategic or unprofitable contracts have been identified, of which around 50 percent should be either concluded or exited during 2018.
- Large cost savings in the media business, a majority of Media Solutions divested.
- Ericsson Power Modules and around 20% of the US number portability business divested.
- Completely or partly left non-strategic areas, including fiber roll-out, field services, and Industry & Society.

To improve profitability, Ericsson has a target to reduce costs by at least SEK 10 billion by mid-2018 compared to 2017. By the end of the year, SEK 6 billion in cost savings had been achieved.

## **Investments in technology leadership**

Ekholm highlighted the importance of investing in technology leadership. During the year, the investments in R&D increased by over SEK 6 billion and 2,000 new R&D engineers were recruited. These R&D investments are mainly targeting our Networks business with a combined focus on securing leadership in 5G and to continue to optimize the 4G portfolio to make it more efficient.

Another example of R&D investments is in Managed Services, where Ericsson invests in new technology and business models, using automation, machine learning and artificial intelligence.

## **Market share**

Ericsson has lost market share within Radio for several years, but in 2017 there was a clear shift in that trend, with an increased market share in the second half of the year. The trend has been driven by the competitiveness of the radio portfolio Ericsson Radio System.

Ekholm said: "We have been working hard to turn around the development. It is therefore satisfying that we, after several years of decreasing market share, have started to increase our share, and doing so with improved gross margin."

## **Financial targets**

For 2020, when Ericsson expects net sales of SEK 190-200, the plans now in place will bring the company to a gross margin of 37–39% and an operating margin of at least 10%, excluding restructuring charges. Over time, with the ramp up of 5G and contribution from innovation and new businesses, Ericsson's target is an operating margin of at least 12%.

### **Sustainable and responsible business**

During the year, Ericsson has reduced the absolute carbon footprint of its own activities with 14% and over the past six years the reduction is close to 50%. Going forward, targets have been set to continue to reduce carbon footprint in the own operations and also to reduce energy consumption in the company's products, driven by the introduction of Ericsson Radio System.

The company has also worked hard within responsible business focusing on sourcing, anti-corruption and health and safety.

The company has taken measures to further strengthen its compliance and anti-corruption programs, including increased focus from the top and throughout the company, increased resources in the compliance organization, and targeted efforts to strengthen the compliance culture and behaviors.

### **5G**

Ekholm elaborated on the development of 5G, saying that the development in 2017 has been faster than expected and that 5G is now a commercial reality. Ericsson has announced a number of commercial 5G contracts, and the first networks will be launched already this year. As devices become available next year, the development will gain momentum.

Ericsson sees three segments in 5G: enhanced mobile broadband, fixed wireless access, and Internet of Things (IoT), with the biggest potential for service providers in IoT.

Ericsson is well-positioned within 5G and the company has aimed to make the transition from 4G to 5G as easy as possible for its customers. This has generated a growing interest in the company's 5G product portfolio.

### **Final remarks**

Ekholm concluded: "In 2017 we stabilized and simplified the company, we took out significant costs, and invested in the future. We have a clear strategy and clear targets for turning Ericsson to profitability and a strong long-term development.

### **NOTES TO EDITORS**

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